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VIA OVERNIGHT MAIL

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Minerals Management Service  
Royalty Management Program  
Rules and Procedures Staff  
P.O. Box 25165  
Mail Stop 3101  
Denver, CO 80225-0165



Attn: David S. Guzy, Chief - Rules and Procedures Staff

**RE: Amendments to Gas Valuation Regulations for Federal Leases**

Dear Mr. Guzy:

Marathon Oil Company ("Marathon") appreciates the opportunity to comment on the Notice of Proposed Rulemaking of the Minerals Management Service ("MMS") entitled "Amendments of Gas Valuation Regulations for Federal Leases" published at 60 Fed. Reg. 56007 (November 6, 1995). These comments are intended to compliment comments made by the American Petroleum Institute ("API") on these proposed rules, which are incorporated herein by this reference. Marathon also incorporates by reference the comments provided by the Rocky Mountain Oil & Gas Association and the Council of Petroleum Accountants Societies on these proposed regulations.

In addition to the comments provided by the above industry organizations, Marathon offers the following comments:

**1. Section 206.456(a)(2) Transportation allowances-general.**

The proposed regulation does not allow for the deductibility of compression upstream of the Facility Measurement Point (FMP). This provision will put producers of lower pressure gas at a disadvantage when compared to producers that do not have to compress their gas into higher pressure pipelines. It should be pointed out that compression is a pipeline requirement, and the producer is competing for market space with other producers on the line. In the case of offshore platforms, the purpose of compression is to transport gas from the platform to onshore markets. Therefore, Marathon proposes that this section should be changed to read "Compression necessary due to pipeline pressure requirements (e.g., high-pressure pipelines), regardless of location, is an appropriate deduction as a component of the transportation allowance." To simply want to draw a "bright line" is not a reason to disallow a deduction for compression that is clearly a function of transportation. However, if the "bright line" is a MMS requirement to add certainty to this


issue, MMS should treat compression upstream of the separator as a "marketable condition" requirement. Compression downstream of the separator would therefore be a proper transportation allowance.

**2. Payment/Reporting Responsibility for 100 Percent Federal and Stand-Alone Leases (Preamble at 60 FR 56015).**

Although API also addresses this issue in its comments, Marathon would like to emphasize that the Committee concurred with the MMS REGNEG proposal regarding payment and reporting of royalty on takes for agreements which contain 100 percent federal leases with the same royalty rate and fund distribution codes with an exception to seek approval on an entitlements basis. However, the preamble fails to mention that industry, in concurring with the MMS proposal, did not agree that a lessee would be liable for underpayments on anything other than its entitled share. The preamble also fails to state that the MMS REGNEG proposal provided that all volumes taken could be reported to the lease from which the volumes were taken, and that MMS would internally reallocate production among the leases. Marathon urges the MMS to clarify these issues in the final rule.

Marathon thanks you again for this opportunity to provide comments on these proposed rules. If you have any questions, please call.

Sincerely yours,



Richard J. Kolencik

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